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C O N F I D E N T I A L AMMAN 000703

SIPDIS

STATE FOR NEA/ELA AND EEB

E.O. 12958: DECL: 03/17/2019
TAGS: [EAID](#) [ECON](#) [EFIN](#) [JO](#) [PGOV](#)
SUBJECT: JORDANIAN FINANCE MINISTER ADVOCATING FOR
SIGNIFICANT TAX REFORMS AS ALTERNATIVE TO PROPOSED STIMULUS
PACKAGE

REF: A. AMMAN 611
[1](#)B. 08 AMMAN 1019

Classified By: Ambassador R. Stephen Beecroft for reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: Newly appointed Minister of Finance Bassem Salem plans to replace a proposed \$280 million stimulus package with a tax reform program advocated for by the USAID-funded Fiscal Reform Project (ref A). The project seeks to improve tax administration and to implement a revised corporate and personal tax structure with potential 33) 60% tax cuts. The goal of the reduced tax rates is to spur the economy through increased foreign investment and reduced tax evasion. The associated, revised tax law must be reviewed by the Legislative and Opinion Bureau (LOB) in the Prime Ministry before it can be submitted to Cabinet and Parliament for approval. King Abdullah has told the Minister that he supports such a law and will recommend that Parliament pass the law unchanged during this summer,s extraordinary session. End Summary.

[1](#)2. (C) USAID has met repeatedly with Salem over the last several weeks to prepare the draft tax law and to develop an implementation strategy. Prior to the Minister,s arrival, Ministry of Finance staff had been working on a stimulus package, last priced at \$280 million, which would have provided support to the troubled real estate and agricultural sectors. Salem did not believe that the package, which had been partially leaked to the press, would meet its economic goals and an International Monetary Fund team visiting Jordan the week of March 8 concurred. Salem is instead supporting a radical change to the tax code to increase investment, improve transparency and improve tax administration and compliance.

[1](#)3. (SBU) While the actual tax rates are still being discussed, the current plan calls for a 10% tax rate for all corporations except banks which would pay a 20% tax. These rates are dramatically lower than the current structure which has a 15% tax rate for the industrial sector; 25% for services; 35% for banks/financial services; and 20% for other sectors. Banks have historically paid higher taxes in Jordan because interest income is forbidden in Islam and the high tax rate is seen as a &sin tax.8 The personal income tax rate would likely be set at the same rate as the corporate

tax, since the majority of businesses are family businesses which can easily move income between corporate and personal income. The fiscal reform project also includes significant tax administration changes to reduce corporate and individual tax evasion; to decrease the amount and ease of exemptions; and to improve ministry audit practices.

¶4. (C) Salem told EmbOffs he intends to have Parliament review the revised tax law during the extraordinary session which will likely be scheduled for June or July. Prior to that, the law must be reviewed by the LOB, a process which can take at least four to six weeks for even priority bills, and be approved by Cabinet. Salem seeks to accelerate the process by providing LOB with dedicated Jordanian tax lawyers who can provide technical assistance.

¶5. (C) Salem also indicated to USAID that he met this week with King Abdullah to discuss the tax reform plan, and the King agreed to recommend to Parliament that the tax law be passed unchanged. In the past, Parliament has changed tax laws adding loopholes and lowering tax rates for particular groups which created significant tax distortions. The last such editing of the tax law resulted in the revisions being cancelled rather than implemented with Parliament's changes. The Minister does not believe that a tax law with Parliamentary edits would meet the project's goals of having a transparent, fair and simple law.

¶6. (SBU) The philosophy behind the new, lower tax rates is that such rates will work as a stimulus package by encouraging international investment. This will in turn create new businesses and eventually increase total tax

revenues. Salem acknowledges that the approach will result in reduced revenue in the short-term but points to similar tax reform successes in Egypt, Ireland and Slovakia. Jordan has also seen internal success with its 5% flat tax in Aqaba increasing tax revenues by dramatically increasing tax compliance (ref B). The USAID Fiscal Reform project team believes that the schedule for passing the law is aggressive but possible.

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